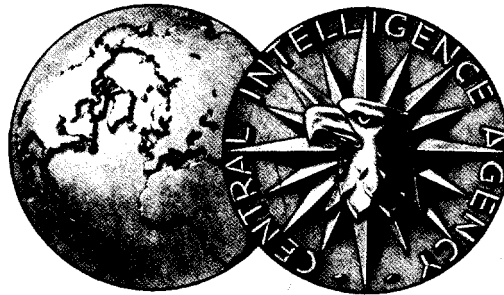


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REVIEW OF THE WORLD SITUATION



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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

SUMMARY

1. The general world situation in relation to the long-term security interests of the US is recapitulated as follows:

a. Access or denial of access to the coastal regions of Asia are fundamental strategic objectives of both the US and USSR. In the Far East, a situation favorable to the USSR is being shaped. US ability to check and reverse this trend is presently hampered by the US being in a middle position between the demands of Asiatic nationalisms and the policies of Western European states. In the Near East, a moderately favorable US/UK position is being weakened by the increasing instability of the Arab States.

b. The approaching virtual partition of Germany will momentarily fill the power vacuum of Central Europe and explains the increasing evidence of efforts to consolidate control both in the East and West of Europe.

c. Economic trends suggest the possibility of a slightly higher degree of political stability in Western Europe.

2. In the Far East, no solution can be foreseen in China beyond a gradual accommodation with Communist power. Force of circumstances is concentrating the immediate US security interest in areas peripheral to China and on the off-shore islands.

3. In the Near East, the momentary calm that prevails is misleading. The factors leading to instability are far from being brought under control. Israel has acquired a preponderance of applicable power and Arab adjustments to this fact are halting and confused. In Greece, a dangerous stalemate has developed both militarily and politically.

4. It is considered that the USSR has accepted the partitioning of Germany as a fact and is primarily concerned to pursue a policy of consolidating its zone in relation to this new situation. Corresponding adjustments on the part of the Western Powers are more difficult to make. Economic factors, however, except with respect to inflationary forces, favor the West.

5. In Latin America, recent military coups have been primarily the result of officer corps wishing to regain their dwindling political influence. The examples of Peru and Venezuela may encourage similarly situated military groups to attempt similar coups. At the moment, these palace revolutions do not constitute threats to US security. They do, however, delay the solution of longer-term social and economic problems.

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force. The information herein is as of 13 December 1948.

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

GENERAL

The world situation as it has been previously examined in relation to the basic security interests of the US has not significantly altered during the past month. Regional situations and localized issues have developed along lines already indicated and within the framework already described. Consequently, the general part of this Review, with the exception of some economic notes, will be largely a recapitulation.

1. THE FAR EAST AND NEAR EAST.

The issue of control over these power vacuums—an issue which basically lies between the US and the USSR—has become more sharply defined in the Far East and more uncertain in the Near East. The essential nature of the issue has not, however, changed. It still remains a fundamental question of the relative strategic positions of two global powers. In the Far East, the snowballing successes of the Chinese Communists suggest the possibility of a trend that might put the USSR in a highly favorable position. At the same time, effective US counteraction—now largely restricted to areas outside China—is complicated by the need to come to terms with local Nationalist movements and by the problem of coordinating this requirement with the divergent policies and interests of the Western European states whose colonial holdings are threatened by these same Nationalist movements.

In the Near East, the moderately favorable US-UK position of a year ago is being somewhat reduced in value by the political instability of the region. The local balance of power as between Arab and Jew has shifted in favor of the Jews and neither the end nor the consequences of this shift can be determined. Since the UK still rests its strategic position in this area on its relations with the Arab States, and since the US in considerable part still covers its security interests in the area by assuming the viability of the UK position, any factor that calls into question the reality of their joint control is a matter of fundamental concern.

Generally, with respect to Asia, its coastal regions are primary strategic interests of both the US and the USSR, and the reaction of either to real or apparent pressures from the other is immediate. The advance of the Chinese Communists, by suggesting that a large sector of the Far Eastern littoral might be closed to US influence, has already had the effect of increasing the strategic importance to the US of Southeast Asia and the off-shore islands.

2. EUROPE.

The issue of control over this power vacuum likewise lies between the US and the USSR. In this instance, however, the issue is approaching a condition of stalemate

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marked, on the one hand, by the increasing sovietization of Eastern Europe and, on the other, by a mounting pressure for economic unions, military alliances, and political federation in Western Europe. Since the most powerless, and hence the most fluid element in the situation is Germany, the broad issue has been simplified into a German problem.

The German problem has, in turn, been focussed in Berlin. Consequently, issues which involve the whole of Europe are being somewhat artificially tested in a highly concentrated area. Events in Berlin are comparatively insignificant in themselves when measured against the total security interest involved in the problem of controlling the European vacuum. The compelling trend is the inevitability with which circumstances are leading toward the actual partitioning of Germany. When this point has been reached the vacuum will be momentarily filled. It is in anticipation of this that the USSR seeks to consolidate Eastern Europe and to prevent the consolidation of the West under US influence. By the same token, the US encourages and aids the consolidation of Western Europe while seeking to prevent the East from being irreversibly oriented toward the Soviet Union.

3. ECONOMIC.

Developments of interest in connection with the establishment and maintenance of power positions by the US and the USSR are noted as follows:

a. A slightly higher degree of political stability has been made possible in Europe by the improvement through 1948 of world production and employment. Production of iron and steel, nonferrous metals, and grains has increased notably. Both production and consumption of natural rubber, coal, and petroleum have increased. The demand for metals, augmented by military requirements, has led to higher prices for these commodities in spite of greater production; but grain and most other food prices have declined.

b. The world food harvest has been the largest since 1945, and shows an approximate increase of 15 percent over that of 1947. The *bread-grain* harvest is 11 percent higher than in 1947. The critical food shortages that prevailed in many areas in 1947-48 will be alleviated. Barring unforeseen interferences with world food distribution, the food deficit countries should be able to maintain rations slightly below prewar levels until 1949 crops are harvested. Political problems attributable to food shortages should become less pressing for the US in Western Europe. It should be noted, however, that the present harvest will be almost entirely consumed within the year 1948-49 and that the food-importing countries will not be able substantially to build up their depleted stocks.

c. Items Unfavorable to US.

Abnormally large purchases of natural rubber by the USSR leave no doubt that this commodity is being stockpiled. In 1947, 43,000 long tons were purchased from Malaya. In the first ten months of 1948, 93,000 tons were bought and additional

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purchases of between 35,000 and 45,000 tons are estimated for November and December.

An adverse supply situation has been developing in the US in connection with metallurgical grade manganese ore. Exports of this ore to the US appear likely to fall from 1.3 million long tons in 1947 to 1 million for 1948. US consumption has meanwhile increased. Reserve stocks will have to be drawn on to make up the deficit that has developed. The situation is made more serious by the fact that imports from areas not under Soviet domination (India, Latin America, the Philippines, and Turkey) have declined while imports from the USSR have increased. This increase was of the order of 280,000 tons (1947) to 348,000 tons (1948).

d. Items Unfavorable to USSR.

The rehabilitation of Soviet petroleum facilities as they existed prior to the war has not yet been completed. The planned development of new facilities is being hampered by serious shortages of essential materials (drilling machinery and pipe) and of supplementary facilities (refining capacity and transportation). In consequence there has been active exploitation of the oil shales of Estonia and a shift of interest to the preparation of synthetic fuels.

US export controls, instituted in March 1948, have cut exports to Eastern Europe and the Soviet Union by 45 percent during the last nine months as compared with the first nine months of 1947. In consequence, the Soviet Bloc is turning to Western European countries (through both official and covert channels) in search of machinery and other goods needed for their industrialization programs and for production for military use. ECA's responsibility for discouraging such shipments is becoming at the same time more difficult and more important.

REGIONAL DEVELOPMENTS

1. FAR EAST.

The haze created by the communiqués of Chinese Nationalist spokesmen has not hidden the progress of that government toward disintegration. Stated intentions are invalidated almost as soon as they are announced, either by their own lack of realism or by events. Briefly there is no practical hope that the Nationalist regime can recover its balance either by retreating to the south, by the elimination of Chiang Kai-shek and his personal supporters, or by various combinations of the two devices. Accommodation with Communist power must increasingly appear to be the only political alternative open to those associates of the Nationalist regime who still hold some vestiges of regional power.

At the moment, one element in the situation stands out as of immediate and practical concern to US security. This is the possible status of Taiwan (Formosa) if and when the Chinese mainland is controlled by a Communist-dominated government. On the assumption that such a development sets the stage for an expansion of the Soviet strategic position in the Far East, Taiwan, from the US point of view, is strategically divorced from China and becomes one of the group of off-shore islands on which the US position will then automatically rest. Soviet penetration of an island thus

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situated would have an adverse effect on the US position on the periphery of China somewhat similar to that which a Soviet penetration of Greece would have on the Anglo-American position in the Eastern Mediterranean. There are hints that some of the Nationalist officials now being increasingly isolated in Taiwan may attempt to build up a regional authority there. The leaders of such a movement could request US support on grounds that would have considerable practical appeal if a shift in the strategic importance of Taiwan had tied it in with the US interest in Japan, the Philippines, and Southeast Asia.

In this same area, where the available opportunities as well as the pressing necessity for stabilizing US influence are being concentrated, two sectors are becoming critical: Korea and Indonesia. This concentration is primarily the result of the new context set by Communist successes in China. At the same time that the existence of the Korean Republic comes increasingly to depend on a continuation of US military and economic aid, the South Korean government is reducing the effectiveness of that aid by its short-sighted ineptness. Its security measures are oppressive and terroristic and are cutting down its popular support. Its administrative inefficiency is threatening to undermine the chances of building up a viable economy. Its methods add to rather than diminish the defeatist spirit of the new Republic; and the strength of its fears can be measured by the completeness of its demands for US backing.

In Indonesia, it is becoming increasingly unlikely that the determination of whether Dutch or Republican authority shall prevail will be settled by negotiation. If the dispute falls back into the violent stage, Indonesian affairs are in graver danger than ever before of being manipulated by Communist groups and of thus becoming an extension of developments in China. If the dispute reverts to the United Nations for action by the Security Council, it can only do so in a way that will call for a clear definition by the US of its security interests in Indonesia.

In all other sectors of the periphery, except possibly Japan and the Philippines, the situation remains unfavorable. The bases of stability do not exist and there is little encouragement for thinking that they can be established in the near future.

The general picture of economic improvement, so clearly drawn in Europe, is more doubtful in the Far East. As political repercussions of the situation in China become increasingly felt in Southeast Asia, production is likely to fall off and to become disorganized. The problem of food supply in this area may become critical if disorder spreads and is prolonged. At the moment, increased rubber production in Indonesia has more than offset the drop in Malayan production that followed Communist activities. But the growing uncertainty of the situation in Indonesia may lead to a major curtailment and seriously affect the maintenance of US stocks of natural rubber. The situation is roughly the same for tin.

2. THE NEAR EAST.

Momentary calm prevails at the storm center of Israel. It appears, however, to result from a growing Arab awareness of impotence in comparison with the strength that Israel has built up, rather than from a mutual desire for reconciliation. Israel

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has clearly acquired an immediate preponderance of applicable power and has achieved a position—both on the spot and in international councils— from which to call the tune. The Arab States, at least at official levels, are becoming concerned with the problem of limiting the use of Israeli power and are averting their eyes from the now academic question of its elimination. Israel, with time now on its side, appears to be reluctant to prejudice its strong position in the UN by needless intransigence. Although an emasculated version of a US and UK resolution calling on Jews and Arabs to negotiate outstanding issues and setting up a Conciliation Commission to promote a general settlement has passed the General Assembly of UN, the basic situation in Palestine will remain the same. There is considerable chance that failure will intensify unrest throughout the Near East, still further reduce the Arab capacity for effective resistance, and provide Israel with an excuse for expansion by force.

In Greece, a dangerous stalemate has developed on both military and political fronts. The campaign against the guerrillas has bogged down and low morale expresses itself in the assertion that failure came from insufficient US aid. Politically, the Greek spirit is equally poor. The recent change in government illustrates political poverty. The new government is similar to but weaker than the previous one. It is unlikely that this state of suspended animation will continue. A large section of Greek opinion—concentrated in Athens—is considering the possibility and the merits of a dictatorship of the Right. A small non-Communist minority is pressing for conciliation with the rebels. In relation to the stated intention of the US to remain in Greece and, more significantly, in relation to the Anglo-American strategic position in the Eastern Mediterranean, two possible conclusions emerge: (1) the capacity and willingness of the Greek people to play the part assigned to them by US policy has been overestimated; or, (2) the requirements for enabling them to play this part have been underestimated.

In Turkey and in Iran there are signs of new diplomatic pressures. The Prime Minister of Turkey was publicly treated to intemperate reproof by the Soviet Ambassador for his “unrealistic” approach to geopolitical fact. The Turkish Government, whose firm resistance to Soviet pressure has not been weakened by this new diplomatic manner, has presented notes to the US and UK expressing the view that Turkey should not be excluded from any international security agreement whose purpose is to check Soviet-Communist expansion. In Iran, pressure consists of vigorous propaganda encouraging Azerbaijan secession, of military forays across the border; and strong diplomatic maneuvers to distract an unstable government are expected. Meanwhile Iranian leaders still find it safer and more profitable to continue to cooperate with the US than to seek to conciliate the USSR.

3. BERLIN-GERMANY.

The establishment of a Soviet-supported Rump Government in eastern Berlin, aside from the monkey wrench it throws into the almost stalled machinery of negotiation, justifies the conclusion that the USSR has now focussed its efforts on what has been called its “alternative objective” in Germany. At the time the Berlin blockade

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was imposed, it was estimated that the Soviet purpose was to check an Allied consolidation of western Germany and to revive the Council of Foreign Ministers with the hope that the Western Zones would be opened to the USSR. It was also estimated that an alternative purpose could be presumed and that this was to prepare the ground for a final consolidation of the Eastern Zone of Germany (including the Berlin area) with the Soviet security area of Eastern Europe. It is now evident that Soviet policy has concentrated on this alternative, has accepted its implications, and is taking the obvious steps to ensure its achievement. This decision and its consequences, since they were implicit in the situation from the start, cannot be said to introduce any unexpected factors. The virtual political and economic partitioning of Germany has now been practically accomplished. The tempo of adjustment to this reality will be necessarily increased, both on the part of the USSR in the East and the US in the West. The USSR has already begun to make its adjustments—including new steps to force the Western Powers out of Berlin—in the field of political and economic control and security. A Rump German Government, constructed on the Satellite model and maintained by similar methods, is the obvious end-product of these adjustments. Since time does not press politically and since the immediate position of the West in Berlin is difficult and could easily lead to disagreements among the Western Allies as they are forced to reach tripartite decisions under pressure of circumstances, it is difficult to estimate the speed with which the USSR will develop its policy.

The US and Western Europe have still a long road to travel before they achieve an equally effective coordination of their interests and policies with respect to Germany. French desires and French political stability continue to have a limiting effect on the formulation and implementation of Allied policy. While it is estimated that a "Third Force" coalition will govern France for the next few months, it is certain that Communists and Gaullists will be both willing and able to make political capital out of any concession the French Government may make to the US/UK point of view on western Germany. Consequently, any position that the US attempts to take in Germany appears as a unilateral decision which is then halted by French objections and compromised in the interest of preserving the solidarity of Western Europe. This is in sharp contrast with the freedom with which the USSR can maneuver in its own zone.

The speed and success with which the consolidations of Western and Eastern Europe can be achieved by the US and the USSR, respectively, are directly affected by economic factors. Although, at the present time, the political and security aspects of the situation are unfavorable to the US, the general economic aspect is more satisfactory in spite of an inflationary tendency and may prove to be of considerable significance for the longer run.

Within the framework of a general increase in world steel production in the last half of 1948, important increases were achieved in the US and in Germany (Bizonia). In contrast, steel production rates have not advanced in Eastern Europe; and in Poland, owing to a failure to obtain adequate amounts of high-grade ore, the rate of production has receded from earlier levels.

With respect to coal, world production shows satisfactory gains. Again, the most

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significant from the US point of view have been those in Western Europe, Great Britain, and Germany (Bizonia). French output was reduced by only 5 million tons by the recent politically inspired strike. More adequate supplies have made a more rational use of coal possible. Shortage of coking coal is no longer a bottleneck in steel production. Expensive imports from the US have been cut.

Though most countries have brought postwar inflationary forces fairly well under control, the situation in Western Europe is unsettled by the continued inability of France to curb the wage-price spiral and by a renewed inflationary pressure in western Germany and Austria. This constitutes a potential threat to political stability in an area of critical interest to the US and makes the continuing success of ERP more difficult to maintain.

4. LATIN AMERICA.

The recent army coup in Venezuela, coming so rapidly on the heels of a similar occurrence in Peru, raises the question of whether or not a trend away from democratic political institutions is developing in Latin America.

There were common elements in the two situations. In both countries, democratic governments, established by free elections, were of recent origin (1945 in Peru, 1947 in Venezuela). In both, these popularly chosen governments have now been overthrown by traditionally conservative army groups. Despite the claims of these groups that they were motivated by hostility to Communism and by their desire to eliminate graft and inefficiency, both seem to have been stimulated rather by the growing dissatisfaction of their officer corps with the declining political influence of military circles in liberal or left-wing governments.

In other Latin American countries (Guatemala, and perhaps Chile) where similarly, liberal governments were established in recent years, military circles can also be expected to re-examine their positions and to consider how best to ensure the continuation of the special and privileged influence they have been accustomed to exert. In still other countries (Ecuador, Bolivia, Paraguay) with little or no democratic tradition, army groups will hardly fail to note the advantages of closing their ranks in good time and of imposing their will in advance on civilian political elements.

As far as Peru and Venezuela are concerned, there is at this time no reason to believe that the change in government will have any immediately serious adverse effect on US interests. Nor should it be assumed that army coups of the Peruvian-Venezuelan pattern will necessarily take place elsewhere. But it is certain that, in the absence of a broad, stable basis for civilian political power—a condition which depends upon the long-term solution of social and economic problems—the armed forces of most Latin American states will constitute the social group most eager and most able to exercise authority. One can interpret the political activities of this group either as a backward step in the political development of Latin America or merely as a frank acknowledgment that present difficulties can be most easily controlled by semi-military methods. In any event, however, it is doubted that governments installed by military coups can provide long-term social and political stability.

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